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Society of Trust and  
Estate Practitioners

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# Directory and Yearbook 2004



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# Cyprus

## EDITORIAL BOARD OF CYPRUS

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### 1. INTRODUCTION

#### a. History and background

The Republic of Cyprus is an independent sovereign republic established in 1960. Previously, Cyprus was a colony of Great Britain and before that, a part of the Ottoman Empire. Its written constitution is derived from the London and Zurich Agreements of the late 1950s.

The strategic importance of Cyprus to Greece, Turkey and the UK explains why independence was brokered in such an unusual way. Certain clauses of the Constitution may not be changed. Other articles require a majority, both of Greek Cypriots and Turkish Cypriots, whose ethnic identity is recognized and entrenched in the Constitution itself. Despite troubles between the two ethnic groups since independence, the Republic continues to thrive.

The growth of Cyprus as an international financial centre began with concessionary rates of corporation tax, together with the arrangement of tax treaties with countries in Eastern Europe and the former Soviet Union.

More recently, Cyprus has acceded to Organization for Economic Co-operation and Development ("OECD") complaints of unfair competition in matters of tax. Landmark changes to income tax in 2002 complied both with OECD and European Union ("EU") concerns.

By mid-2004, it is expected that

Cyprus will be a fully-fledged member of the EU. The United Nations' plan to recalibrate the Republic into an independent, non-aligned, bi-communal and federal arrangement would consummate Cyprus's place within the European home.

The currency is the Cyprus pound (CYP).

#### b. Legal system

Cyprus has an independent and separate judiciary. The Constitution features legal principles such as the separation of powers and fundamental rights and liberties (and certain obligations). These are afforded not only to Cypriots but also to all other persons. In 1962, Cyprus signed the *European Convention on Human Rights (Ratification) Law 39, 1962*.

The Constitution is the supreme legal authority. International agreements, conventions and treaties (as long as they are faithfully observed by both signatories) are superior to statute and the common law (and its rules of equity). Statute law is a combination of those British Acts of Parliament that were in force in Cyprus on the day before independence and the Republic's statutory law that has followed.

### 2. TRUSTS

#### a. Introduction

The Cyprus Constitution expressly adopts the common law and equitable principles of English law.

The civil and criminal courts follow these principles unless otherwise mandated by the law of Cyprus or its Constitution.

Although a signatory of the *Hague Convention on the Law Applicable to Trusts and on their Recognition*, July 1, 1985, Cyprus has not yet ratified the treaty. Under the Constitution, this treaty would have higher authority than that of statute and the common law.

#### b. Types of most frequently used trusts and their uses

Trusts being administered by trustees in Cyprus are categorized as private, charitable or international. Testamentary settlements are common, and are addressed in the *Trustees Law* Cap 193, which is almost identical to the English *Trustees Act 1925*.

International trusts were introduced in 1992 and include special features such as protection from inheritance rules of other jurisdictions that would effectively override a trustee's powers. The Cyprus International Trust ("CIT") is probably the most common arrangement other than the bare trust. The CIT, used in inheritance and tax planning, is not available to Cypriots.

Possible vehicles for asset protection include the CIT, Cyprus Private Trust with Manx law adopted by its settlor, and the Cypriot company (either limited by guarantee or both by guarantee and shares).

Other than the CIT, which must be approved by the Central Bank of Cyprus, there are no requirements to register private trusts.

#### c. Resources

##### i. Books

Introduction to Cyprus Law, Andreas Neocleous & Co. ISBN 3-902046-21-X

##### ii. Websites

[www.neocleous.biz](http://www.neocleous.biz) (Introduction to Cyprus Law – Andreas Neocleous & Co.)

##### iii. Statutes

*Trustee Law* (Cap 193)  
*Charities Law* (Cap 41)  
*Bankruptcy Law* (Cap 5)  
*Fraudulent Transfers Avoidance Law* (Cap 62)  
*International Trust Law, 69, 1992*

### 3. OTHER FORMS OF LEGAL ENTITIES

#### a. Introduction

Although the Cypriot private limited company is similar to that in a typical Commonwealth jurisdiction, some modifications have been made since independence, in order to bring Cypriot corporate law into line with other European law. The private company limited by shares is the prominent legal entity.

Generally, companies are entitled to carry on most commercial activity without a licence, with the exception of banking and insurance, where a licence is obligatory.

All Cypriot companies must file audited accounts. The cost of an audit is low by comparison with other European countries. Cypriot companies with management and control resting in the Republic have access to the benefits of Cyprus's many double tax treaties.

The disapproval of names that are sensitive or similar to an existing name is strictly observed. However, ready-made companies are available from most firms offering such services.

In accordance with the Constitution, all documents for filing with the Registrar of Companies must be either in Greek or Turkish.

#### b. Resources

##### i. Websites

[www.neocleous.biz](http://www.neocleous.biz) (Introduction to Cyprus Law – Andreas Neocleous & Co.)

[www.mcit.gov.cy/drcor](http://www.mcit.gov.cy/drcor) (Department of Registrar of Companies)

#### 4. TAXATION

##### a. Introduction and developments

The taxation of Cyprus is made up both of direct and indirect taxes. Generally, both kinds of tax finance state spending, especially in education, defence and health. Employers' and employees' contributions to social insurance are not taxes but are still part of a separate fund allocated for the benefit of those who have contributed.

Of great significance in the first half of 2002 was the Republic's decision to revise its tax laws so as to satisfy the EU *Acquis Communautaire* and to satisfy requirements of the OECD.

##### b. Tax system: general concepts of tax regime

As a result of revision of the tax

code, all Cypriot companies from January, 2003, that are managed and controlled from within Cyprus, pay a uniform rate of income tax, which is levied at 10% on taxable profits (gross income after the deduction of business expenditure). If a company is managed and controlled outside the Republic, it does not pay Cypriot tax on its worldwide income.

Capital gains tax applies primarily to immovable property, owned directly or indirectly, which is situated in Cyprus.

Trustees are obliged to account for Cypriot income tax where such an obligation exists. The law makes no distinction between nominee, fixed and discretionary arrangements. Therefore, trusts possessing resident trustees and non-resident beneficiaries, do not incur Cypriot tax liabilities.

In matters of executorships the deceased's executors must account for the final taxes on income. However, no account of death taxes has been necessary since their abolition in 2000.

#### c. Resources

##### i. Books

Introduction to Cyprus Law – Andreas Neocleous & Co. ISBN 3-902046-21-X

##### ii. Websites

[www.neocleous.biz](http://www.neocleous.biz) (Introduction to Cyprus Law – Andreas Neocleous & Co.)

[www.ctrpublications.com](http://www.ctrpublications.com) (current tax news and publications)

##### iii. Statutes

*Income Tax Law, 2002*

*Income Tax (Amendment) Law, 2002*

*Income Tax (Amendment) (No 2) Law, 2002*

*Capital Gains Tax Law, 2002*

*Assessment and Collection of Taxes (Amendment) Law, 2002*

*Special Contribution for the*

*Defence of the Republic Law, 2002*

*Special Contribution for the*

*Defence of the Republic Law*

*(Amendment) (No 2), 2002*

*Special Contribution for the*

*Defence of the Republic Law*

*(Amendment) (No 3), 2002*

*Estate Duty (Amending) Law,*

*Law 74 (I), 2000*

#### 5. OTHER RELEVANT MATTERS

##### i. Websites

[www.centralbank.gov.cy](http://www.centralbank.gov.cy) (Economic and monetary characteristics including money laundering.)

##### ii. Statutes

*Prevention and Suppression of Money Laundering Activities Law, 61 (I), 1996*

## London Trust

London Trust is a structured small firm with intent. We are modelled on a Private Client Practice. However our preference is to work with other professionals who like ourselves are part of the STEP family.

We follow STEP's programme of continuous education. Our methods include attending STEP conferences and in-house workshops. The price of staying up to date is eternal vigilance. We aim to be as such.

London Trust maintains a relevant and growing reference library. Through the good offices of associates in law, accountancy and banking, we are able to confirm and interpret developments in Cyprus as they occur. We also monitor actively the case law passing through the Cypriot courts that is germane to trusts, companies and taxation. For us staying up to date is regarded as imperative.

And so given the seriousness of the work we do

we have taken much time and trouble designing and implementing internal controls that are dedicated to finding the right balance between security and flexibility. We aim to strike the right balance.

In a highly competitive global marketplace Cyprus has sometimes been passed over. However, we believe this is often unjustified. The Cypriot business climate is now at its most attractive. There are many types of familiar structure available and some more

besides. The legal and taxation framework are familiar to offshore practitioners. The authorities are rigorous in maintaining standards and yet sympathetic to the spirit of free enterprise.

London Trust has been active in Cyprus for over five years. We have the skills and the experience with which to lead you to and through the potentialities that Cyprus has to offer.